



## PORT OF HOUSTON AUTHORITY

June 4, 2012

The Honorable Ed Emmett, Harris County Judge  
The Honorable El Franco Lee, Harris County Commissioner, Precinct One  
The Honorable Jack Morman, Harris County Commissioner, Precinct Two  
The Honorable Steve Radack, Harris County Commissioner, Precinct Three  
The Honorable R. Jack Cagle, Harris County Commissioner, Precinct Four

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HARRIS COUNTY  
MANAGEMENT SERVICES

Dear Members of the Harris County Commissioners Court:

On behalf of the Port Commission and staff of the Port of Houston Authority, I am pleased to submit this annual update.

The Port Authority is embarking on key milestones as it approaches the 100<sup>th</sup> Anniversary of the official opening of the Port of Houston in 2014. Our staff is under new leadership. Earlier this year, the Port Commission named Leonard D. Waterworth as Executive Director of the Port Authority. Mr. Waterworth brings more than 30 years of leadership experience in both the public and private sectors, including service as District Engineer and Commander of the U.S. Army Corps of Engineers District in Galveston.

We believe his significant experience in management, construction and engineering will prove invaluable as the Port Authority prepares for its most expansive capital investment program ever.

### **ECONOMIC IMPACT**

The Port Authority takes seriously its mandate to create jobs and contribute to the continued prosperity of our region, Texas and the nation, through development of deep water navigation, waterways and facilities, and the promotion of commerce.

The success of that commitment to economic development is reflected in the Local and Regional Economic Impacts of the Port of Houston report released by Martin Associates last month. The study, based on 2011 data, found that the Port of Houston annually generates more than one million jobs in Texas, \$178.5 billion of statewide economic activity and \$4.5 billion in local and state taxes. This shows a significant net increase in each of these categories since the economic impacts study was released five years ago. A summary of the report is enclosed, and is available, along with the full study, on our website ([www.portofhouston.com](http://www.portofhouston.com)).

James T. Edmonds • Chairman

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## **FINANCIAL PERFORMANCE**

More than 42 million tons of cargo moved through Port Authority facilities in 2011, an increase of 5 percent over the prior year. Operating revenues rose 11 percent to an all-time record of \$206.8 million. Strong throughput in both import and export steel and a modest increase in the number of containers moved were primary contributors to last year's solid performance. The 2011 Annual Report and the 2011 Comprehensive Annual Financial Report, which covers these results in more detail, accompany this letter and are available on our website.

This strong performance has continued through the first four months of 2012. Brisk activity at our Turning Basin Terminal and the execution of new lease agreements for submerged lands and placement of dredge material have contributed to an 8 percent increase in revenue through April, compared to last year.

## **GOALS AND CHALLENGES**

As we continue to prepare for the future, a critical focus is maintaining all federal channels serving our port community, particularly the 52-mile-long Houston Ship Channel. As local sponsor of this federal channel, the Port Authority works closely with the Army Corps to protect the economic benefits of this dynamic waterway system. Due to silting and shoaling, the channel requires constant dredging, at an estimated cost of \$40-\$50 million per year, to maintain it at its authorized depth of 45 feet and width of 530 feet. Despite the best efforts of the region's representatives in Congress, recent appropriations for the Corps have not been sufficient to do so. Although the federal government receives more than \$127 million in annual Harbor Maintenance Taxes levied on cargo activity at the Port of Houston, Houston receives only a portion of that for maintenance dredging, generally \$20-\$30 million annually. As a result of this funding gap, our channel has been losing an average of 8 percent of usable depth per year since 2005, and each foot of project depth lost because of limited dredging can cost the economy \$187 million per year.

Legislation filed in Congress could make significant progress in remedying this situation. The Realize America's Maritime Promise Act ("RAMP Act") would ensure that funds collected by the federal government through the Harbor Maintenance Tax are used for their intended purpose, namely, dredging and maintaining the nation's waterways. The Port Authority has been actively engaged with members of Congress, both locally and beyond Texas, as well as many national organizations to assist with this effort and help our local waterways deliver the greatest benefit to our community.

## **CAPITAL IMPROVEMENT PROGRAM**

The Harris County region is experiencing and will continue to experience rapid economic expansion. Demographic trends indicate the current population of 6 million will increase to over 8 million in the next 20 years. A significant amount of the economic expansion and population growth can directly be attributed to the investments made by Harris County taxpayers in Port of Houston facilities. These investments have supported economic growth, job creation and expansion of the county, region and state tax base.

With the advent of population growth, rapid expansion of the petrochemical industry and the anticipated expansion of the Panama Canal, the Port of Houston will experience larger vessels and increased cargo demands in the next 10 to 20 years. The Port Authority must develop, expand and renew its facilities in order to continue to promote economic vitality throughout the region.

We estimate that the Port Authority will need to make capital investments of about \$1.2 billion over the next five years. Our latest liquidity forecast shows estimated capital expenditures of \$188.7 million, \$330.6 million and \$143.9 million in 2012, 2013 and 2014, respectively. Prominent among them are \$130 million in estimated dredging costs needed to deepen and widen the Bayport and Barbours Cut channels to accommodate the larger post-Panamax vessels.

The Port Authority clearly understands the numerous demands made on our local tax base. For that reason we are reviewing all forms of financing in order to further develop the facilities necessary to drive and support our region's economic growth and employment opportunities, and for maintenance and operation of the Houston Ship Channel. We are exploring a variety of means by which to grow the Port of Houston, meet the capital needs of both the Port of Houston and the Port Authority, and provide the greatest return on investment to the taxpayers in the form of jobs and economic growth.

I believe I speak on behalf of the entire Port Commission in ruling out any request this year for new public funding; however, I note that over the years, the public has been supportive of our general obligation initiatives. From 2007 to 2011, we invested over \$640 million in Port Authority facilities, of which \$432 million is attributed to general obligation bond funds and the balance was paid from our general fund. During the same time frame, business activities at both private and public facilities along the Houston Ship Channel added 241,000 Texas jobs and \$61 billion in statewide economic impact, or approximately 31% and 52% growth, respectively. If you only consider the Port Authority's public terminals and facilities during the last five years, the impact is even more pronounced at 258,000 additional jobs and \$44 billion of economic value added, or approximately 66% and 62% growth, respectively. In other words, for every \$1 million of capital investment during this five-year period, the Port Authority has generated 403 jobs.

**Port of Houston Authority  
Liquidity Forecast (000's)**

	2012 Budget	2012 Forecast	2013 Forecast	2014 Forecast
<b>Funds Available, Beginning of Year</b>	\$ 371,917	\$ 218,014	\$ 110,391	\$ (150,502)
Contingency	(35,000)			
Debt Service and Other Reserves	(15,875)			
Outstanding Capital PO's and Commitments	(103,028)			
	<u>\$ 218,014</u>	<u>\$ 218,014</u>	<u>\$ 110,391</u>	<u>\$ (150,502)</u>
<b>Sources:</b>				
Operating Cash Flow *	70,885	81,030	69,706	72,166
	<u>\$ 288,899</u>	<u>\$ 299,044</u>	<u>\$ 180,097</u>	<u>\$ (78,336)</u>
<b>Available Resources</b>				
<b>Uses:</b>				
New Capital Investment **				
Bayport Terminal	(97,003)	(96,528)	(47,366)	(4,562)
Barbours Cut Terminal	(48,851)	(33,696)	(87,700)	(96,465)
Turning Basin Terminals	(14,638)	(15,738)	(27,510)	(12,970)
Port Security & Emergency Operations	(12,868)	(9,962)	(4,733)	-
Channel Development & Beneficial Use Sites	(5,520)	(5,520)	(129,510)	(11,790)
Information Technology	(4,950)	(5,050)	(750)	(300)
Executive Office Building	(4,795)	(5,044)	(3,230)	(2,950)
Marine Department	(2,881)	(611)	(2,812)	(100)
Engineering, Construction & Project Management	(6,930)	(6,652)	(2,820)	(8,114)
General Counsel / Legal Division	(2,200)	(2,200)	-	-
Other	(5,530)	(7,652)	(24,168)	(6,641)
Subtotal - New Capital Investment	(206,167)	(188,652)	(330,599)	(143,892)
<b>Net Funds Available, End of Year</b>	<u><b>\$ 82,732</b></u>	<u><b>\$ 110,391</b></u>	<u><b>\$ (150,502)</b></u>	<u><b>\$ (222,228)</b></u>

\* Assumes no tariff increases and G&A expenses remain flat from 2012 Budget

\*\* Updated with capital list dated 4/30/2012

## **SUNSET REVIEW**

The Port Authority is currently undergoing a review by the Texas Sunset Advisory Commission. The review is a comprehensive look at the Port Authority, its operations and the state statutes that govern its activities.

We sincerely support this process and look forward to adopting those changes recommended by the Texas legislature and governor, to maintain their confidence and the support of the public, local leaders, and our other stakeholders. The first step of the process was completing a Self-Evaluation Report which was submitted to the Sunset Commission in September 2011. This report, as well as an update prepared in March 2012, are available on our website.

Currently, the Sunset Commission staff is conducting its review and will issue a report with recommendations by August 2012. There will be a public hearing before the legislators and public members who comprise the Sunset Advisory Commission in September 2012, to consider the recommendations and hear public testimony on the Port Authority. Based on this review and public input, the Sunset Advisory Commission is expected to adopt recommendations for the full Legislature to consider when it convenes in regular session in January 2013. We welcome the opportunity to continue to improve the Port Authority through this process.

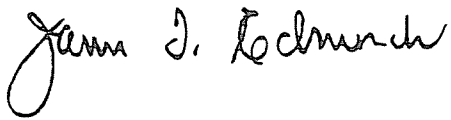
## SUMMARY

The Port Authority remains committed to enhancing the competitive position of the Port of Houston in a global economy, while being a model environmental and security steward, and a community-focused and fiscally responsible organization.

This commitment comes with even more resolve, as we address the serious growth challenges facing the Port Authority. We must continue to be competitive in the international marketplace, and we must ensure that the necessary infrastructure is in place to meet cargo demands resulting from expected growth in the region in the next few decades.

Thank you for your continued partnership and support, as we work together to lay the foundation to continue to deliver job creation and economic development to the region, state and nation for the next one hundred years.

Respectfully,

A handwritten signature in black ink, reading "James T. Edmonds". The signature is written in a cursive, flowing style.

James T. Edmonds, Chairman

Enclosures

Copies:        Steve Phelps, Commissioner  
                    Jim Fonteno, Commissioner  
                    Kase L. Lawal, Commissioner  
                    Jimmy A. Burke, Commissioner  
                    Janiece Longoria, Commissioner  
                    Elyse Lanier, Commissioner  
                    Leonard Waterworth, Executive Director